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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of Contracts Resulting From Its 2014 Energy Storage Request for Offers (ES RFO).	Application 15-12-003 (Filed December 1, 2015)
Application of Pacific Gas and Electric Company for Approval of Agreements Resulting from Its 2014-2015 Energy Storage Solicitation and Related Cost Recovery. (U39E).	Application 15-12-004 (Filed December 1, 2015)

REPLY BRIEF OF THE UTILITY REFORM NETWORK

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REPLY BRIEF OF THE UTILITY REFORM NETWORK

I. INTRODUCTION

Pursuant to the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (Scoping Memo)* issued March 25, 2016, and an Administrative Law Judge's email ruling of May 19, 2016, The Utility Reform Network (TURN) submits this reply brief in response to certain parties' opening briefs regarding the development of a "market price benchmark" (MPB) to be used for the computation of the Power Charge Indifference Adjustment (PCIA) to estimate the "above-market costs associated with departing load for market/'bundled' energy storage services" that may be associated with the storage contracts the Commission may approve in this docket.[1]

TURN reiterates the positions of its opening brief that the Joint IOU Protocol Proposal (IOU Proposal)[2] is preferable to the joint proposal of the Community Choice Aggregation (CCA) and Direct Access (DA) parties (CCA/DA Proposal),[3] though TURN believes that the IOU proposal could and should be refined to better model storage assets' cash flows.[4] In this reply brief, TURN will address certain arguments made by the CCA

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[1] *Scoping Memo*, p. 2.

[2] *Joint IOU Proposed Protocol for Energy Storage Power Charge Indifference Adjustment (PCIA), Workshop Presentation*, May 9, 2016, cited herein as the "IOU Proposal". An additional Administrative Law Judge's email of May 19 said she intended to take official notice of this presentation and permitted parties to cite it in their briefs. The IOU Proposal was sponsored jointly by the three large investor-owned utilities, Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas & Electric Company.

[3] *Joint CCA and DA Parties, Proposed Methodology for Incorporating Energy Storage Resources in the Power Charge Indifference Adjustment*, May 9, 2016, cited herein as the "CCA/DA Proposal". An additional Administrative Law Judge's email of May 19 said she intended to take official notice of this presentation and permitted parties to cite it in their briefs. The CCA and DA parties include the "CCA Parties" of Marin Clean Energy, City of Lancaster, Sonoma Clean Power Authority and the County of Los Angeles, the Alliance for Retail Energy Markets and the Direct Access Customer Coalition filing as "AReM/DACC", and Shell Energy North America filing as "Shell".

[4] TURN's Opening Brief, May 25, 2016, pp. 1-5.

and DA parties in favor of their proposal and in opposition to the IOU Proposal.

II. CCA AND DA PARTIES ARE WRONG TO SAY THAT THE JOINT IOU PROTOCOL WOULD NOT MODIFY THE PCIA CALCULATION.

Though TURN had its own concerns, as noted above, some of the CCA and DA parties' criticisms of the IOU Proposal are overstated. For example, CCA Parties said the utilities treated storage as a "traditional generation resource" and adapted the PCIA "without modification" or "blindly" to storage contracts.[5] AReM/DACC said the IOU Proposal treats storage "like gas-fired generation".[6]

These specific CCA and DA party criticisms of the IOU Proposal are overblown. The utilities made several changes to the PCIA to attempt to add estimates of the benefits and costs of storage assets, including adding features to account for "the costs incurred for charging energy (including cycling losses)…the revenues earned from discharging energy, and the amount each storage asset will operate".[7] The utilities thus did add new variables and computations into the PCIA methodology to attempt to capture unique attributes of storage assets. The Commission should reject these CCA and DA party broad criticisms of the IOU Proposal.

III. CCA AND DA PARTIES EXPLICITLY ATTEMPT TO AVOID PAYMENT OF "SYSTEM" BENEFITS ENJOYED BY ALL CUSTOMERS.

CCA and DA parties suggest that storage assets offer several "system level" benefits that are not now – but should be – considered in the PCIA. For example, Shell argued that the IOU Proposal excluded "system level benefits" and the benefits of

[5] CCA Opening Brief, May 25, 2016, pp. 3 and 8.
[6] AReM/DACC Opening Brief, May 25, 2016, p. 8.
[7] TURN Opening Brief, p. 2.

"transmission/distribution grid reliability".[8] CCA parties complained that the IOU Proposal did not consider "resiliency in the cases of islanding or blackouts".[9] To the extent a storage project provides such benefits, they are provided to the entire system and should be compensated by all customers, not just bundled customers. CCA and DA parties are instead asking the Commission to impose such costs only on bundled customers and exempt unbundled customers from paying them. The Commission should reject such appeals for exemption from paying for storage benefits that accrue to all customers.

Even when some attribute of a storage contract *might*, in theory, uniquely accrue to bundled customers, the Commission must not assume that bundled customers will in fact receive some unique and non-trivial benefit. The CCA Parties and Shell claim that storage assets will provide several other benefits for bundled customers.[10] However, bundled customers either cannot or may not receive any unique benefit from these services. For example, some benefits ("time-shifting benefits") are captured in the IOU Proposal and other benefits ("ancillary services") provide zero or very minimal revenues to generating assets. And the benefit of "peak shaving" is already captured by the PCIA in its consideration of resources' capacity benefits. The Commission must, therefore, exercise care in deciding which storage attributes really do provide non-trivial value *only* to bundled customers when reviewing possible changes to the PCIA.

[8] Shell Opening Brief, May 25, 2016, p. 2.
[9] CCA Opening Brief, p. 6.
[10] For example, Shell identified "time-shifting benefits" and "ancillary services". (Shell Opening Brief, p. 2.) The CCA Parties listed "voltage control, spinning/non-spinning reserve, frequency regulation, primary frequency response, peak shaving…" (CCA Opening Brief, p. 6.)

IV. THE COMMISSION SHOULD REJECT THE CCA/DA PROPOSAL FOR A "STORAGE ADDER".

The Commission should reject the CCA/DA Proposal for a "storage adder".[11] The adder would, in effect, spread the entire cost of storage assets to bundled customers on the flimsy assumption that storage projects will return value to bundled customers equal to their contractual costs. The CCA/DA parties ignore the fact that the Commission has long approved utility projects to meet various grid needs even though such projects are expected to generate negative cash flows from their operation in capacity and energy markets. A failure to allocate such negative cash flows would force the utilities' bundled customers to pay for *all* the costs of such resources, violating the "bundled customer indifference" standard.

The CCA Parties appear to recognize that their proposal would generate negative cash flows for bundled customers when they state: "[c]urrent storage costs are much higher than the value of the energy discharged into the market and the short-term capacity value reflected in the current [Market Price Benchmark].[12] Under the CCA/DA Proposal, bundled customers would bear the entire gap between "current storage costs" and the admittedly lower combined value of "energy discharged into the market" and "short-term capacity" – that is, bundled customers would not be indifferent.

AReM/DACC make a similar one-sided proposal when they suggest that utility "RA-Only" ("Resource Adequacy Only") storage contracts should also be valued at their contract costs.[13] In RA-Only storage contracts, bundled customers uniquely get *only* the

[11] *Joint CCA and DA Parties, Proposed Methodology for Incorporating Energy Storage Resources in the Power Charge Indifference Adjustment*, May 9, 2016, pp. 7-10.
[12] CCA Opening Brief, p. 7.
[13] AReM/DACC Opening Brief, p. 13.

RA value of the storage asset; the asset's operator retains all of the contract's other financial benefits (and associated costs and risks of obtaining those benefits) and any other non-financial system benefits the contracts offer accrue to all customers. Yet AReM/DACC would require bundled customers to pay for all the contract costs of such new storage projects, despite the likely gap between higher RA-Only storage contract prices and the lower market RA prices such contracts would replace. To the extent RA-Only contract costs are higher than market RA capacity prices, bundled customers would just pay a higher price for generic RA rather than be indifferent.

Finally, in comparing the proposed storage adder to the existing renewable adder, AReM/DACC state that the Renewable Portfolio Standard (RPS) requirement was "new" in 2011.[14] TURN rejects this characterization of the RPS program as of 2011; rather, the RPS had been in effect for several years and already led to substantial procurement of renewable resources by 2011.

V. CONCLUSION

TURN re-iterates its request that the Commission implement an enhanced version of the IOU Proposal for a Market Price Benchmark for storage assets for use in the PCIA, as discussed in its opening brief and comments. If the Commission instead wishes to choose between the IOU or CCA/DA proposals as they have been submitted, it should choose the IOU Proposal. The Commission should reject the CCA and DA parties' above-cited arguments opposing the IOU Proposal and favoring the CCA/DA Proposal.

[14] *Id*., p. 10.

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